Saskatchewan Transportation Company

Third Quarter Report 2015

For the quarter ending September 30, 2015

2015 3rd Quarter Corporate Reporting

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Management Discussion and Analysis

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC) operations in the third quarter of 2015. From a management perspective, it highlights the primary factors that impacted our operations and the financial results of the Company over the past nine months.

This MD&A compares the operational outcomes of the third quarter of 2015 to the corresponding quarter in the previous year (third quarter of 2014) and to the anticipated financial position of the Company over the full year. It also discusses any emerging issues that will have an impact on the Company's fiscal position.

Passenger Services:

In the first three quarters of 2015, STC coaches traveled approximately 2,170,000 miles, providing intercity bus passenger service to 253 Saskatchewan communities.

Revenues from passenger operations in this quarter were $1,690,000, down from $1,868,000 in revenues reported in the third quarter of 2014. Year to date passenger revenues were $5,147,000, compared to $5,594,000 for the same period in 2014.

Expenses associated with operating passenger services were $3,542,000, down from the 2014 figure of $3,898,000. Year to date passenger operating expenses were $11,133,000, down from the 2014 total for the same period of $12,144,000 largely due to fiscal restraint measures taken in 2015 and a decrease in fuel prices in the first nine months of 2015.

Operating losses for passenger services in the quarter were $1,852,000, compared to a loss of $2,030,000 in the third quarter of 2014. Year to date losses were $5,986,000, compared to a loss of $6,550,000 for the same period in 2014.

Total ridership for the first three quarters of 2015 was 149,557, compared to 195,877 in the same period of 2014, a decrease of approximately 23.7%.

STC implemented a 4.5% passenger fare increase effective March 2, 2015.

Express Services:

Through its network of 174 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

In the third quarter of 2015, revenues from express operations were $1,879,000, down from the revenues of $1,977,000 reported in the third quarter of 2014. Year to date express revenues were $5,406,000, compared to $5,582,000 for the same period in 2014.

Expenses associated with operating express services in the third quarter of 2015 were $1,375,000, down from the 2014 third quarter figure of $1,494,000. Year to date express operating expenses were $4,271,000, compared to $4,508,000 for the same period in 2014.

Profits realized for express operations in the third quarter were $504,000, compared to a profit of $483,000 in the third quarter of 2014. Year to date profits were $1,135,000, compared to $1,074,000 for the same period of 2014.

STC implemented a 5% express rate increase effective February 2, 2015.

Maintenance Services:

STC operates two Maintenance Facilities, one in Saskatoon for major bus maintenance, and one in Regina for more routine servicing.

In the third quarter of 2015, expenses associated with maintaining the Company's fleet (included in passenger and express services above) were $908,000, a slight increase, compared to $897,000 in the third quarter of 2014. Year to date maintenance expenses for the Company's fleet were $2,923,000, compared to $2,903,000 for the same period of 2014.

The Company also uses these facilities to perform maintenance work for other transportation companies. The revenues derived from this service in the third quarter of 2015 were $63,000, compared to $118,000 in the third quarter of 2014. Year to date revenues were $224,000, compared to $364,000 for that same period in 2014. The decrease in revenue is due to a decrease in fuel volumes and prices being charged to maintenance customers.

Expenses associated with performing maintenance work for other companies were $38,000 in the third quarter of 2015 compared to $65,000 in the third quarter of 2014. Year to date expenses for third party maintenance work were $126,000 compared to $213,000 for the same period of 2014.

Financial Summary:

Overall, STC's revenues for the third quarter of 2015 amounted to $4,008,000, compared to $4,123,000 in the third quarter of 2014. Year to date revenues were $11,479,000 as compared to $12,021,000 for the same period of 2014.

Expenses for the third quarter were $6,539,000, compared to $7,215,000 for 2014. Year to date expenses were $20,855,000, compared to $22,365,000 for the same period of 2014.

The Company's loss before grants for the quarter was $2,531,000, compared to $3,092,000 in the third quarter of 2014. Year to date losses were $9,376,000, compared to $10,344,000 for the same period of 2014.

STC has been approved for an operating grant of $10.3 million from its holding company, the Crown Investments Corporation (CIC) of Saskatchewan. Current projections for the year, based on the third quarter, indicate that the Company will require the full amount of grant funding.

In this year's first three quarters, STC drew down $8.3 million of the operating grant funds available from CIC. STC had no outstanding loans or indebtedness at the end of the quarter.

At the end of this quarter, the Province of Saskatchewan's equity in STC was $7,842,000 compared to $6,593,000 as at December 31, 2014.

Saskatchewan Transportation Company
Condensed Interim Statement of Financial Position
(unaudited)

	(Thousands of Dollars)	
	As at September 30, 2015	**As at December 31, 2014**
Assets		
Current		
Cash	$ 3,321	$ 1,855
Accounts receivable	966	1,311
Inventories	301	325
Prepaid expenses	536	534
Assets held for sale	6	6
	5,130	4,031
Non-current		
Property and equipment (note 4)	36,029	36,070
	$ 41,159	**$ 40,101**
Liabilities and Province's Equity		
Liabilities		
Current		
Trade and other payables	$ 2,773	$ 3,039
Non-current		
Deferred capital grant (note 4)	30,544	30,469
	33,317	33,508
Province of Saskatchewan's Equity		
Contributed surplus	465	465
Retained earnings	7,377	6,128
	7,842	6,593
	$ 41,159	**$ 40,101**

See accompanying notes

Saskatchewan Transportation Company
Condensed Interim Statement of Comprehensive Income (Loss)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	(Thousands of Dollars)			
	2015	**2014**	**2015**	**2014**
Revenue				
Express services	$ 1,879	$ 1,977	$ 5,406	$ 5,582
Passenger services	1,690	1,868	5,147	5,594
Other	439	274	896	832
Gain on disposal of property and equipment	-	4	30	13
	4,008	4,123	11,479	12,021
Expenses				
Operating costs other than those listed below	2,048	2,533	6,623	8,067
Salaries, wages and short-term employee benefits	3,759	3,888	11,742	11,923
Depreciation (note 4)	732	794	2,490	2,375
	6,539	7,215	20,855	22,365
Loss before the following	(2,531)	(3,092)	(9,376)	(10,344)
Operating grant	2,500	2,000	8,300	8,500
Capital grant (note 4)	673	738	2,325	2,188
Total comprehensive income (loss)	**$ 642**	**$ (354)**	**$ 1,249**	**$ 344**

See accompanying notes

Saskatchewan Transportation Company
Condensed Interim Statement of Changes in Equity
(unaudited)

(Thousands of Dollars)

	Attributable to the Province of Saskatchewan		
	Retained Earnings	Contributed Surplus	Total Equity
Balance at January 1, 2014	$ 6,546	$ 465	$ 7,011
Total comprehensive income	344	-	344
Balance at September 30, 2014	6,890	465	7,355
Balance at October 1, 2014	$ 6,890	$ 465	$ 7,355
Total comprehensive loss	(762)	-	(762)
Balance at December 31, 2014	6,128	465	6,593
Balance at January 1, 2015	**6,128**	**465**	**6,593**
Total comprehensive income	**1,249**	-	**1,249**
Balance at September 30, 2015	**$ 7,377**	**$ 465**	**$ 7,842**

See accompanying notes

Saskatchewan Transportation Company
Condensed Interim Statement of Cash Flows
(unaudited)

	Nine months ended September 30 (Thousands of Dollars)	
	2015	**2014**
Operating Activities		
Total comprehensive income	$ 1,249	$ 344
Items not involving cash:		
Depreciation (note 4)	2,490	2,375
Gain on disposal of property and equipment	(30)	(13)
Recognition of capital grant (note 4)	(2,325)	(2,188)
Net change in non-cash working capital	101	(244)
Cash provided by operating activities	1,485	274
Investing Activities		
Additions to property and equipment	(2,460)	(933)
Proceeds on disposal of property and equipment	41	26
Cash used in investing activities	(2,419)	(907)
Financing Activities		
Capital grant received	2,400	700
Operating demand loan	500	-
Repayment of operating demand loan	(500)	-
Cash provided by financing activities	2,400	700
Increase in cash	1,466	67
Cash, beginning of year	1,855	1,642
Cash, end of period	**$ 3,321**	**$ 1,709**

See accompanying notes

1. Status of Saskatchewan Transportation Company

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. STC's powers, duties and conditions were affirmed in 1993 by Order in Council #5. STC is continued under *The Crown Corporations Act, 1993*. STC is a corporation domiciled in Canada. The address of the Company's registered office and principal place of business is 1717 Saskatchewan Drive, Regina, SK, S4P 2E2.

The financial results of STC are included in the condensed consolidated interim financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The results included in these condensed interim financial statements should not be taken as indicative of the performance to be expected for a full year due to the seasonal nature of corporate operations.

2. Basis of preparation

a. Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting*. These interim results do not include all the information required for full annual financial statements and should be read in conjunction with STC's audited annual financial statements for the year-ended December 31, 2014.

The condensed interim financial statements were authorized for issue by STC's Board of Directors on November 25, 2015.

b. Basis of measurement

These condensed interim financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These condensed interim financial statements are presented in Canadian Dollars, which is the Company's functional currency.

d. Use of estimates and judgments

The preparation of condensed interim financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Depreciation is based on the estimated useful lives of property and equipment. Tangible assets are reviewed for impairment each period using estimates of recoverable amounts to determine if there is an impairment loss. The accrual for compensated absences is based on historical usage.

3. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in STC's audited annual financial statements for the year-ended December 31, 2014.

4. Change in Fleet Valuation and Estimated Useful Lives

Pursuant to IFRS, and based on an evaluation of internal and external sources of information related to condition, remaining useful life, and market prices for similar assets, management concluded there were observable indications that the value of two coaches was impaired. The net book value of each coach as of May 31, 2015 was $273 thousand while the assessed recoverable amount, which is fair value less costs of disposal, was estimated at $140 thousand per coach. Fair value is measured using Level 1 of the fair value hierarchy based on quoted prices readily available from an active market.

This resulted in recognition of an impairment loss on each coach of $133 thousand, or a total of $266 thousand, which has been included as part of depreciation expense on the Condensed Interim Statement of Comprehensive Income. Both coaches were originally purchased with grant funding, and therefore the impairment loss is offset by a corresponding $266 thousand of capital grant revenue on the Condensed Interim Statement of Comprehensive Income. There was no net effect on total comprehensive income on the Condensed Interim Statement of Comprehensive Income. As a result of the impairment loss, property and equipment and the deferred capital grant liability decreased by $266 thousand on the Condensed Interim Statement of Financial Position. There is no impact to the Condensed Interim Statement of Cash Flows.

In accordance with the accounting policies of the company regarding estimates and judgments, management has changed the remaining useful lives of both coaches from 15 years to 6 years and therefore the coaches will be fully depreciated by August 31, 2018. As a result of this change in useful lives, depreciation expense will increase by $10 thousand for the year ended December 31, 2015, $18 thousand for the years ended December 31, 2016 and 2017, and $12 thousand for the year ended December 31, 2018.